CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the First Half of 2023

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About the Survey

In February 2023, the Central Bank of Belize distributed the first of its semi-annual Credit Conditions Survey to deposit-taking institutions (DTIs), comprising four domestic banks and eight credit unions. The DTIs furnished responses on credit activity for the second half of 2022 (H2-22) and their outlook for the first half of 2023 (H1-23). Nine of the 12 licensed DTIs participated, representing 96.4% of the loan market.

Responses were converted into a diffusion index (DI), indicating relative changes in supply and demand conditions in the domestic credit market from the lenders' perspective. Qualitative responses to questions were scored between -1 and 1, with -1 denoting the deepest negative sentiment on a symmetric five-point Likert scale and vice-versa.

Executive Summary

In H2-2022, DTIs reported that credit standards eased somewhat relative to the first half of 2022 (H1-22). Against this backdrop, domestic banks and credit unions' lending expanded by $100.7mn in H2-22. Loan growth is forecasted to maintain its upward trajectory in H1-23. All responding DTIs expected their loan portfolios to increase this semester, except for one. DTIs projected that loans for construction, real estate, personal consumption, and tourism purposes would record the most significant growth in H1-23.

Overall Credit Conditions

DTIs credit to the private sector grew by $100.7mn in H2-22 to $3,052.2mn, the largest increase registered in the second half of any year since 2018. Building on the growth momentum in H1-22, lending surged in H2-22, accounting for 77.7% of the annual increase in loans and advances of $129.6mn by DTIs in 2022 (see Chart 1). During H2-22, DTIs issued new loans to fund personal loans ($48.2mn) as well as investments in construction ($16.0mn), real estate ($14.2mn), and agricultural ($10.5mn) activities.

Figure 1: Summary of Credit Conditions

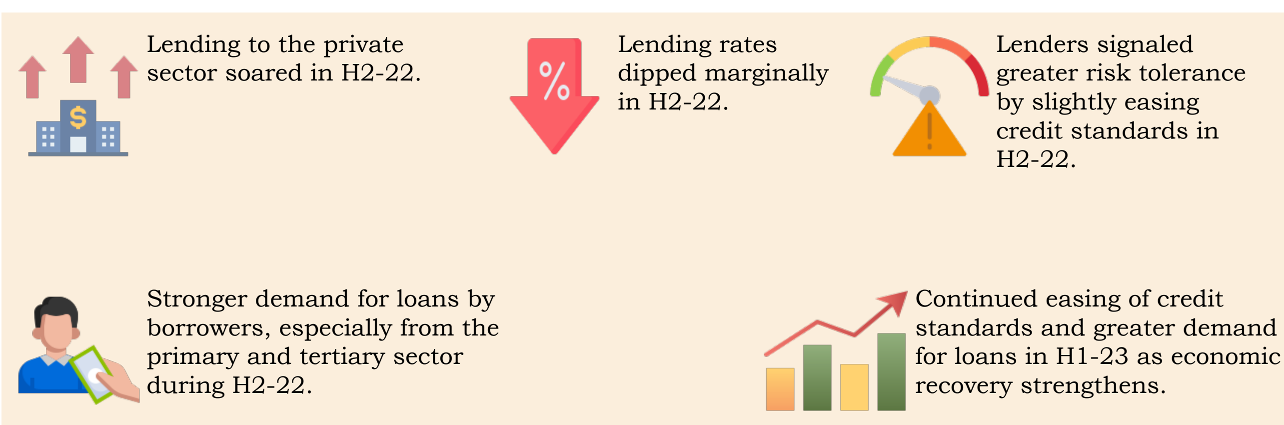
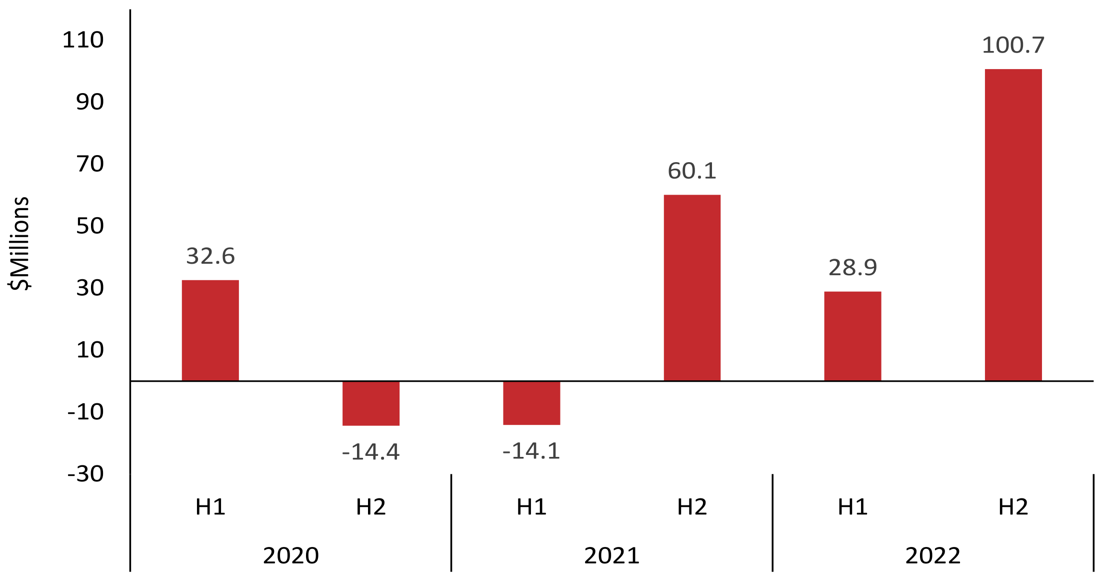


Chart 1: Change in DTIs' Loans and Advances



Credit Supply

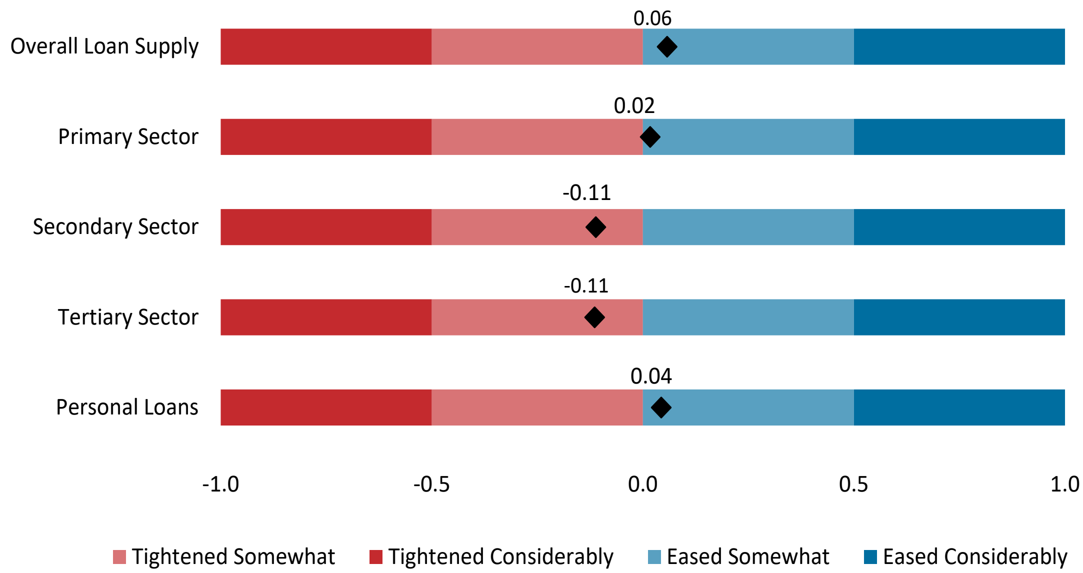
The DI score for credit supply in H2-22 was 0.06, signalling that credit standards among respondents eased marginally relative to H1-22. In addition, the DI scores on a sectoral basis suggested that lenders softened conditions on loans to industries within the primary sector (specifically, agriculture and commercial fishing) and households, with scores of 0.02 and 0.06, respectively. Conversely, DI scores for the secondary and tertiary sectors were -0.11, indicating a likelihood that credit conditions tightened for industries (particularly, the construction, tourism, and real estate industries) within these sectors.

Given the mixed outcomes in DI scores, overall loan supply conditions were still being influenced by the following:

- the eligibility of borrowers,
- the state of the economy,
- inflation,
- competition among financial institutions, and
- risk aversion.

However, loan disbursements by DTIs fell sharply below set targets in H2-22. Only three respondents achieved more than 80.0% of their credit targets, while two institutions attained less than 20.0% of their goals. However, the share of loan applications DTIs approved was relatively high at around 70.0% as credit promotions flared up. These promotions included heightened limits on unsecured loans, reduced mortgage rates, and lower eligibility requirements for micro-, small-, and medium-sized enterprises. The high share of unmet loan targets in view of the sizeable amount of approved loans suggested that a significant number of loans were relatively small.

Chart 2: Loan Supply Conditions by Sector for H2-22



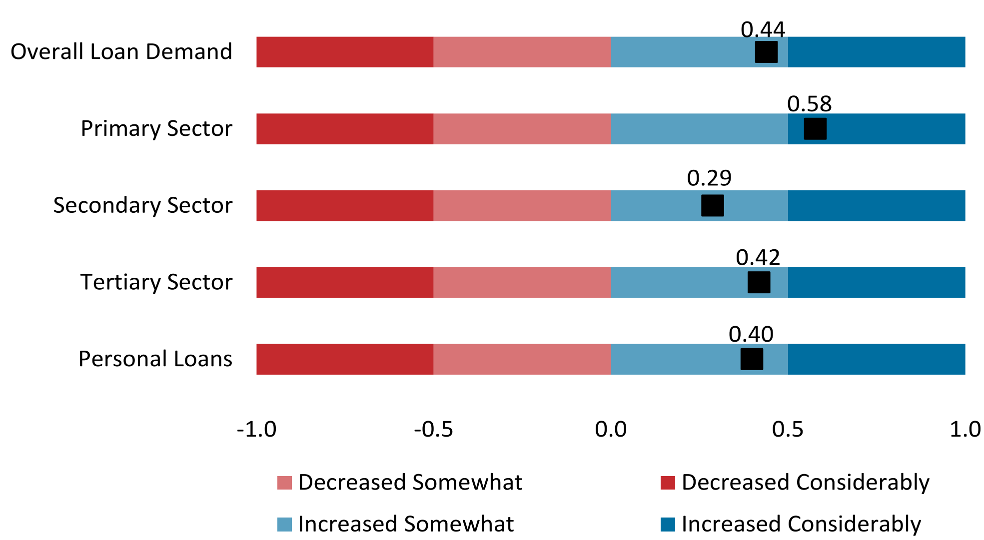
Credit Demand

The DI score for overall credit demand in H2-22 was 0.44, indicating that lenders viewed that borrowers' appetites increased somewhat over the period. DI scores for all sectors increased. The primary sector led all industrial groupings (0.58), followed by the tertiary sector (0.42), personal loans (0.40), and the secondary sector (0.29).

Five respondents disclosed that demand for agricultural loans increased somewhat, while two reported that loan demand for agricultural activity increased considerably.

DTIs identified the following factors as having the most significant impact on overall loan demand:

Chart 3: Loan Demand Conditions by Sector for H2-22



- inflation,
- creditworthiness of borrowers, and
- interest rates.

Moreover, DTIs believed that the high-inflation environment, which depressed borrowers' real income, partly contributed to the strong loan demand in H2-22. However, DTIs were concerned about borrowers' creditworthiness due to inadequate qualifying collateral and over-indebtedness, partly blamed on having loans with multiple financial institutions.

Credit Outlook

Looking ahead to H1-23, credit standards are expected to ease somewhat in the primary and tertiary sectors but tighten somewhat in the secondary sector. Stiffer competition among other financial institutions and greater risk tolerance in anticipation of improved economic conditions should factor in easing credit standards in H1-23. Notwithstanding, only one DTI planned to reduce interest rates in H1-23, while most intend to keep interest rates at H2-22's level. On the demand side, DTIs envisaged above-average loan demand for tourism, real estate, and personal loans in H1-23. Almost mirroring the industries that would fuel loan demand, eight respondents expected that their loan portfolios would grow in H1-23 relative to H2-22, driven by loans and advances for construction, real estate, and personal supplied activities.

Chart 4: Loan Supply and Demand Outlook for H1-23